

## Message Text

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ACTION EUR-25

INFO OCT-01 ISO-00 AGR-20 TAR-02 IO-14 FEA-02 CEA-02

CIAE-00 COME-00 DODE-00 EB-11 FRB-02 H-03 INR-10

INT-08 L-03 LAB-06 NSAE-00 NSC-07 PA-04 RSC-01 AID-20

CIEP-02 SS-20 STR-08 TRSE-00 USIA-15 PRS-01 SP-03

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FM USMISSION EC BRUSSELS

TO SECSTATE WASHDC 7128

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

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C O N F I D E N T I A L SECTION 1 OF 2 EC BRUSSELS 4774

E.O. 11652: GDS

TAGS: PINT, PFOR, ENRG, EFIN, ETRD, EEC, US

SUBJECT: QUARTERLY TRENDS REPORT; EUROPEAN COMMUNITIES

1. BEGIN SUMMARY. THE STATE OF THE EUROPEAN COMMUNITIES (EC) AND US-EC RELATIONS BOTTOMED OUT IN THE LATTER PART OF THE SECOND QUARTER. THE DIFFICULT INFLATION AND BALANCE-OF-PAYMENTS PROBLEMS REMAIN BUT THE CRISIS ATMOSPHERE OF THE PREVIOUS SIX MONTHS HAS LIFTED SOMEWHAT. THE EC HAS SUR-  
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VIVED, AND IMMEDIATE ATTENTION WILL PROBABLY BE FOCUSED ON

MAINTAINING THE BASIC EC ELEMENTS OF A CUSTOMS UNION AND A COMMON AGRICULTURAL POLICY. INTERNALLY, PROGRESS MAY BE MADE IN OTHER FIELDS, BUT THE CURRENT LEADERSHIP AMONG THE NINE SEEMS LIKELY TO FOLLOW THE LOW, PRAGMATIC ROAD RATHER THAN THE HIGH ROAD OF SUMMITS AND SLOGANS. THE EXTERNAL RELATIONS SITUATION HAS IMPROVED AS A RESULT OF SUCCESSFUL TARIFF NEGOTIATIONS WITH THE US, AGREEMENT ON CONSULTATION AND THE ATLANTIC DECLARATION, AND MOVEMENT TOWARD COMMON POSITIONS VIS-A-VIS THE LDCS. AUTHORITY FOR THE PRESIDENT TO ENTER INTO MULTILATERAL TRADE NEGOTIATIONS IS A KEY FACTOR IN CONTINUED GOOD US-EC RELATIONS. END SUMMARY.

2. ECONOMIC PROBLEMS. THE DECLINE IN EC FORTUNES HIT A NEW LOW IN APRIL AND MAY WITH THE FAILURE OF THE ITALIAN AND DANISH PROBLEMS TO BE DEALT WITH IN A "COMMUNITY CONTEXT." LOOKING AHEAD, THE DANGER REMAINS THAT OTHER MEMBER STATES, PERHAPS THE UK AND FRANCE, MAY HAVE TO TAKE UNILATERAL ACTIONS IN THE FACE OF CONTINUING INFLATION AND MOUNTING BALANCE-OF-PAYMENTS PROBLEMS, CAUSED PRIMARILY BY THE INCREASE IN ENERGY COSTS. PLEDGES TO AVOID SUCH ACTIONS HAVE BEEN MADE BILATERALLY AND MULTILATERALLY, BUT ARE NOT LIKELY TO BE HONORED IF PRESSURES MOUNT AND NO COMMUNITY OR INTERNATIONAL SUPPORT PROGRAMS ARE AVAILABLE. THE CURRENT UNFAVORABLE ECONOMIC SITUATION, HIGHLIGHTED BY CHANCELLOR SCHMIDT AT THE NATO SUMMIT MEETING, REMAINS OF FUNDAMENTAL IMPORTANCE IN CONDITIONING THE COMMUNITY'S OUTLOOK, INCLUDING MANY FACETS OF ITS RELATIONSHIP WITH THE US. WITHIN THE EC, THE FUNDAMENTAL DISEQUILIBRIUM BETWEEN THE FRG, ON THE ONE HAND, AND MOST EC COUNTRIES, ON THE OTHER HAND, STANDS OUT MOST CLEARLY. THE GERMANS GIVE GOOD, CLASSICAL ADVICE, BUT THE WEAK EUROPEAN GOVERNMENTS MAY NOT BE ABLE TO USE IT WITHOUT OUTSIDE HELP.

3. THE PROSPECT THAT MEMBER STATE GOVERNMENTS MIGHT PROVE UNABLE TO DEAL WITH THEIR ECONOMIC PROBLEMS EFFECTIVELY COULD ADD TO THE STRAINS ON THE COMMUNITY AND ON THE INTERNATIONAL ECONOMIC ORDER GENERALLY. FOR THE NEXT FEW MONTHS, TWO INTERRELATED QUESTIONS ARE RELEVANT: (A) WILL ECONOMIC CONDITIONS DETERIORATE FURTHER, AND (B) WILL THE COMMUNITY

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AS SUCH HAVE ANY EFFECTIVE ROLE TO PLAY IN COPING WITH THE PROBLEMS? COMMUNITY OFFICIALS NOW TALK OPTIMISTICALLY ABOUT FRANCO-GERMAN LEADERSHIP, BUT THE OBJECTIVE ECONOMIC CONDITIONS CALL FOR PAINFUL DEMAND MANAGEMENT MEASURES. WHAT THE COMMUNITY CAN CONTRIBUTE IN SUCH A SITUATION -- BEYOND MUTUAL ENCOURAGEMENT AND LIMITED SUPPORT -- IS DIFFICULT TO SEE.

4. ENERGY. THE COMMUNITY HAS MADE LITTLE PROGRESS IN DEVELOPING A COMMON ENERGY POLICY. COMMISSION PROPOSALS FINALLY WENT FORWARD TO THE COUNCIL AT THE END OF MAY FOR A NEW STRATEGY WHICH WOULD CALL FOR THE ADOPTION OF SUCH A POLICY BY 1985. WHILE AN EC COUNCIL SESSION ON ENERGY MAY BE HELD IN JULY, IT IS LIKELY THAT IT WOULD ONLY ENDORSE THE GENERAL PRINCIPLES RATHER THAN TAKE DETAILED OR DEFINITIVE DECISIONS. IN THE MEANTIME, EIGHT OF THE NINE HAVE COOPERATED IN THE FOLLOW-UP WORK OF THE WASHINGTON ENERGY CONFERENCE. AS THE FIRST PHASE OF THIS ACTIVITY DRAWS TO A CLOSE, THE MEMBER STATES WILL BE SEEKING A LONG-TERM COOPERATION FORMULA -- PROBABLY CONNECTED WITH OECD -- WHICH WILL PERMIT THE FRENCH TO JOIN AND THUS ALLOW THE NINE TO PARTICIPATE AS A COMMUNITY. IN BILATERAL US-EC RELATIONS, POSTPONEMENT OF AEC SIGNATURE OF CONTRACTS FOR URANIUM ENRICHMENT MAY RAISE QUESTIONS ABOUT OUR RELIABILITY AS A SUPPLIER.

5. OTHER INTERNAL EC ISSUES. THE COMMUNITY MALAISE ALSO RESULTED IN PRACTICALLY NO PROGRESS DURING THE QUARTER IN DEALING WITH A SERIES OF LONG-STANDING ISSUES AND INSTITUTIONAL MATTERS AFFECTING ITS DAY-TO-DAY WORK. THE COMMUNITY'S INDUSTRIAL POLICY HAS EVOLVED ONLY SLIGHTLY AND REGIONAL POLICY HAS NOT MOVED AT ALL. THE IDEA OF ECONOMIC AND MONETARY UNION IS OF COURSE NOT IN THE CARDS UNDER PRESENT CIRCUMSTANCES. IN THE INTERNATIONAL MONETARY TALKS THERE WAS ONLY LOOSE EC COORDINATION. THE COMMUNITY HAS NOT DEVELOPED A COHERENT POSITION ON THE WORLDWIDE PROBLEM OF RAW MATERIALS, EITHER SCARCITIES OR SURPLUSES. THE GROWING BEEF SURPLUS HAS RAISED SPECIAL PROBLEMS FOR THE COMMON AGRICULTURAL POLICY. THE COMMUNITY HAS MADE VERY LITTLE MOVEMENT IN ITS NEGOTIATIONS WITH THE ACP COUNTRIES ALTHOUGH IT HAS NOW MOVED FORWARD ON A NEGOTIATING MANDATE

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FOR TALKS WITH THE MEDITERRANEAN COUNTRIES. THERE HAS BEEN SOME PROGRESS (E.G. TOWARD A COMMON DEVELOPMENT ASSISTANCE PROGRAM) IN OVER-ALL RELATIONS WITH THE LDCS. ON THE POLITICAL COOPERATION FRONT, THE EC-ARAB DIALOGUE IS FINALLY GETTING UNDER WAY.

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6. DECISIONS TO IMPROVE THE WORKING PROCEDURES OF THE EC COUNCIL HAVE BEEN TAKEN -- ALTHOUGH THEIR EFFECTIVENESS IS NOT YET CLEAR -- BUT LITTLE PROGRESS HAS BEEN MADE ON THE ISSUES OF THE POWERS OF THE EUROPEAN PARLIAMENT AND THE COMMUNITY'S BUDGETARY PROCEDURES. THE PRESIDENCY OF THE COUNCIL PASSES FROM THE GERMANS TO THE FRENCH ON JULY 1 AND IT IS NOT CLEAR WHAT EFFECT IF ANY THIS WILL HAVE ON THE COUNCIL IN PARTICULAR AND THE COMMUNITY IN GENERAL. THE GERMAN PRESIDENCY PROVED TO BE A DISAPPOINTMENT. THE CONFIDENTIAL

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GERMANS HAD MORE THAN THEIR SHARE OF BAD LUCK, BUT MOST OBSERVERS FEEL THAT THE GERMANS WERE NOT AS EFFECTIVE AS HAD BEEN HOPED IN EXERTING LEADERSHIP IN THE COUNCIL AND THE PERMREPS.

7. UK "RENEGOTIATION." THE ADVENT OF A BRITISH LABOR GOVERNMENT SEEKING "RENEGOTIATION" OF ITS TERMS OF ENTRY WAS ORIGINALLY A MAJOR ITEM IN THE LIST OF COMMUNITY WOES EARLIER THIS YEAR. IT WILL PROBABLY STILL TAKE A GREAT DEAL OF TIME AND ENERGY FROM WHAT WOULD BE CONSIDERED MORE CONSTRUCTIVE COMMUNITY BUSINESS FOR THE NEXT SIX TO NINE MONTHS, BUT MOST PEOPLE IN THE EC (WITH THE EXCEPTION OF A FEW OFFICIALS WHO ARE SKEPTICAL OF PRIME MINISTER WILSON'S MOTIVES OR HIS ABILITY TO CONTROL EVENTS) ARE NOW CONVINCED THAT THE BRITISH WILL, IN THE LAST ANALYSIS, NOT PULL OUT. THE MOST RECENT CONTRIBUTION TO THIS FEELING WAS MADE BY WILSON IN HIS BILATERAL TALKS ON THE MARGIN OF THE NATO SUMMIT. IN ANY EVENT, THE UK IS NOT CURRENTLY ATTEMPTING TO BLOCK OR SABOTAGE EC ACTIVITIES IN BRUSSELS AND ONE ASPECT OF CRISIS HAS BEEN AMELIORATED. IF THE BRITISH PROPOSALS FOR MODIFICATION OF THE COMMON AGRICULTURAL POLICY COULD BE TAKEN UP AT THE SAME TIME AS AGRICULTURAL DISCUSSIONS IN THE MULTILATERAL TRADE NEGOTIATIONS, IT WOULD HELP FURTHER US OBJECTIVES.

8. NEW GERMAN AND FRENCH LEADERS. BUT THE MAIN LIFT TO THE COMMUNITY SPIRIT HAS BEEN GIVEN BY THE CHANGES IN THE GERMAN AND FRENCH GOVERNMENTS. THE INITIAL BRUSSELS REACTION TO THE ADVENT OF SCPDT AND GISCARD APPROACHED EUPHORIA. AFTER THEIR FIRST BILATERAL MEETING, HOWEVER, EXPECTATIONS BECAME MORE MODEST. GIVEN THE PERSONALITIES AND PREDILECTIONS OF THESE KEY MEN, EVERYONE NOW ASSUMES THAT THE EMPHASIS WILL BE ON SOUND, TRADITIONAL ECONOMIC POLICIES. THEIR REPORTED AGREEMENT TO ESCHEW SUMMITRY, PLUS THE CURRENT BRITISH ATTITUDE TOWARD HIGH-FLOWN OBJECTIVES LIKE "EUROPEAN UNION," INDICATES THAT FUTURE DEVELOPMENT IN THE COMMUNITY IS LIKELY TO BE IN SPECIFIC, CONCRETE ACTIONS IN THE ECONOMIC FIELD WITH A MINIMUM OF "EUROCRAP." THIS DOES NOT MEAN ANY DIMINUTION OF SUPPORT FOR THE EC AND ITS LONG-TERM OBJECTIVES. IT STEMS NOT ONLY FROM THE ATTITUDE OF THE TOP POLITICAL FIGURES INVOLVED BUT ALSO

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THE FEELING THAT THE SETTING OF VAGUE, OVER-AMBITIOUS GOALS HAS NOT ALWAYS WELL SERVED THE EUROPEAN CAUSE. THIS APPROACH ALSO DOES NOT EXCLUDE "PROGRESS" IN THE FIELD OF POLITICAL COOPERATION, E.G. THE ESTABLISHMENT OF A PERMANENT POLITICAL SECRETARIAT DURING THE FRENCH PRESIDENCY.

9. US-EC RELATIONS. ALONG WITH THE BETTER COMMUNITY ATMOSPHERE, US-EC RELATIONS HAVE IMPROVED. THE FIRST SPECIFIC CONTRIBUTION TO THIS TREND WAS THE SETTLEMENT OF THE LENGTHY TARIFF NEGOTIATIONS ON COMPENSATION FOR THE ENLARGEMENT OF THE COMMUNITY LAST YEAR (ARTICLE XXIV-6). IN THE POLITICAL

SPHERE, THE GYMnich FORMULA ON CONSULTATION AND THE NATO DECLARATION ON ATLANTIC RELATIONS WERE THE MAJOR DEVELOPMENTS. AGREEMENT WITH THE COMMISSION AT THE SEMI-ANNUAL US-EC MEETING IN JUNE TO CARRY OUT CLOSE CONSULTATIONS ON A WIDE RANGE OF SUBJECTS OF MUTUAL INTEREST -- FOOD AND AGRICULTURE, TRADE NEGOTIATION PREPARATIONS, INDUSTRY POLICY, POLICIES TOWARD THE LDCS -- ALSO CONTRIBUTED TO IMPROVED RELATIONS.

10. THE EC-ARAB DIALOGUE WILL PROVIDE AN EARLY TEST OF US-EC CONSULTATION PROCEDURES. WHEN IT MOVES INTO SUBSTANCE, THE COMMUNITY AS SUCH WILL BE INVOLVED AND THE COMMISSION WILL BE AN ADDITIONAL CHANNEL. IN THE PAST, THE INSITU-TIONAL MEKISM HAS BEEN AN IMPORTANT FACTOR IN TIMELY AND EFFECTIVE CONSULTATION. AS MORE SUBJECTS MOVE FROM THE POLITICAL COOPERATION OR INTERGOVERNMENTAL FRAMEWORK INTO THE COMMUNITY (AND THEREFORE COMMISSION) CONTEXT, THE PROSPECTS OF AVOIDING PAST DIFFICULTIES ABOUT CONSULTATION SHOULD IMPROVE.

11. ON THE ECONOMIC SIDE, COOPERATION ON THE BROAD MONETARY AND BALANCE-OF-PAYMENTS ISSUES SHOULD PROCEED EFFECTIVELY IN THE OECD AND STRENGTHENED IMF. ON TRADE, SPECIFIC COMPLAINTS ON EITHER SIDE (E.G. US COUNTERVAILING DUTIES AGAINST EC SUBSIDIES ON DAIRY EXPORTS OR DISCRIMINATORY APPLICATION OF THE ITALIAN IMPORT DEPOSIT SKME) CAN AGAIN HEAT UP THE ATMOSPHERE. WE MUST TRY TO AVOID SUCH IRRITANTS BY MUTUAL GOOD MANAGEMENT, BUT ONLY THE PASSAGE OF OUR TRADE LEGISLATION AND THE CONSEQUENT SERIOUS OPENING OF MULTI-LATERAL NEGOTIATIONS WILL PROVIDE THE NECESSARY BROAD FRAMEWORK TO DEAL WITH INDIVIDUAL PROBLEMS. THE EC RECOG-  
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NIZES THIS IMPERATIVE ALSO AND CONSIDERS THE TRADE NEGOTIATIONS AN ESSENTIAL MEANS OF CONTAINING PROTECTIONIST PRESSURES IN TIMES OF ECONOMIC STRESS. GREENWALD

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